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Required Report - public distribution

Date: 5/9/2012

GAIN Report Number: HO - Café 1

Honduras

Coffee Annual

Honduran 2012/2013 Coffee Exports Continue to Roast

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Report Highlights:

Honduras ranks first in Central America, third in Latin America, and seventh globally in coffee exports by volume. Honduran coffee production in marketing year 2012/2013 (October 2012 – September 2013) is forecast at 5 million 60-kilogram bags. Coffee exports for 2012/2013 are forecast at 4.4 million bags. The historical increase in production and sales stems from the high international price of coffee, increased plantings, and good growing conditions. The Specialty Coffee Association of America (SCAA) named Honduras as the Portrait Country at the April 2012 SCAA exposition.

Executive Summary:

Sixty-one percent of Honduran coffee production is grown in the mountains between 2,700 and 3,600 feet above sea level, 23 percent in areas from 3,600 to 4,800 feet above sea level, and 16 percent in areas 1,500 to 2,700 feet above sea level. Coffee is grown in 16 of the 18 Honduran states and in 213 out of the 298 municipalities of Honduras. Honduras differs from other coffee-growing countries in the region because of the prevalence of small producers. More than 85,000 small producers (each farmer selling less than 77 bags) collectively grow more than 90 percent of all coffee produced in Honduras.

The coffee sector provides employment to 30 percent of the population and generates much needed foreign exchange. Two million people directly participate in the coffee harvest. They are paid about US\$71 million, distributed nationwide over a period of four months. Besides picking the beans, there are other activities such as fertilizer application, shade control, cleaning, drying, commercialization, and transport which provide other employment.

The importance of coffee's influence on the national economy extends beyond just farm owners. According to the Honduran Coffee Institute's (IHCAFE), approximately 1.2 million people are involved in the coffee sector. There is a steady demand for roughly 700,000 on-farm employees annually. This on-farm employment has an average of two workers per "*manzana*" (1 manzana equals about 0.7 of a hectare; about 1.7 acres). Seasonal labor demand is 500,000 workers per year; mainly for the harvest season. For the large producers, hired workers provide the labor, while small producers tend to rely more on family members to plant, grow, and harvest coffee. According to the latest data from the Central Bank of Honduras, coffee accounts for 40 percent of total agricultural exports and the 2010/2011 sales contributed to 27 percent of the country's agricultural gross domestic product.

According to IHCAFE, coffee production for the coming years is expected to increase and increase. The 2012/2013 harvest is forecast at 5.0 million 60-kg bags up from the current harvest estimated at 4.6 million bags. These increases are expected through timely technical assistance, ease of obtaining inputs and improved practices to increase yields, quality and production levels.

The forecast 2012/2013 export level is 4.4 million 60-kg bags. Exports in 2011/12 are estimated at 4.1 million bags. Exports in 2010/2011 were 3.9 million bags, twenty-two percent higher than the previous year. Even though there has been a decrease in the international price of coffee, IHCAFE's expects exports to increase since there has been an improvement in the production and quality of Honduran coffee.

The export value for the 2010/2011 harvest reached US\$1,239 million. This was 105 percent higher than the earnings from the 2009/2010 harvest. The average New York (Inter-Continental Exchange ICE) price for the 2010/2011 harvest was US\$248 per 46-kg bag compared to the average price of US\$149 in 2009/2010.

During 2010/2011 exports of specialty, certified, and organic coffee were more than 586,000 bags. This is 15 percent of total coffee exports. For nine consecutive years Honduran producers have participated in regional coffee quality competitions in the international "Cup of Excellence" auction. The Specialty

Coffee Association of America (SCAA) Board of Directors named Honduras as the "Portrait Country" for the annual SCAA exposition held in Oregon on April 19, 2012.

Commodities:

Coffee, Green

Production:

IHCAFE estimates the 2012/2013 harvest will reach 5.0 million 60-kg bags.

Production for the 2011/2012 harvest is now estimated at 4.6 million bags, twelve percent higher than the 4.1 million bag estimate made previously.

Production for the 2010/2011 harvest was 4.0 million bags, twenty-three percent higher than the previous year.

The historical increase in production is due to Honduran producers being motivated by the high international price of coffee. Producers used more inputs such as the application of the fertilizer, the provision of new seeds, the improvement of planting density, and soil conservation techniques to increase yields and production levels. In addition, higher prices motivated landholders in other crops or professions to convert larger proportions of their land holdings to coffee production. An estimated 10,000 new coffee producers entered the market in 2010/2011 resulting in a total of about 101,000 coffee farm operators in the country. This is equivalent to a 10 percent increase in the number of coffee producers.

Honduras differs from other coffee-growing countries in the region because of the prevalence of small producers. More than 85,000 small producers (each selling less than 77 bags) – constitute more than 90 percent of all production in Honduras.

Because of the high prices, coffee producers have expanded and renewed the planted areas. However, the number of bearing and non-bearing trees remains steady. IHCAFE maintains a trust fund to buy fertilizer, sell it at a discount, and on credit terms with payment not due for one year. The trust fund also provides financial assistance for maintenance and renewal of coffee farms. About 87,000 coffee producers participate in this program.

Production of "value-added" coffee is also increasing. More than 586,000 bags of specialty, certified, and organic coffee were produced in 2010/2011. This is a 26 percent increase in production from the previous year.

The production was under programs such as UTZ Kapeh Certified, Organic/Fair Trade, Rain Forest Alliance, Fairtrade, Cafe Practices from Starbucks and others. The establishment of a National Coffee Certification System is underway to guarantee specialty coffee to international markets, as well as a new

system of traceability for the six distinct coffee regions and their unique flavors; including denomination of origin focusing on Café Marcala and Honduran Western Coffees.

Consumption:

According to data from IHCAFE, domestic consumption is generally ten percent of total production. Consumption per capita in 2010 was 3.77 kg per person. This is a 56 percent increase from the previous year (2.41 kg. per person). The increase in consumption can be tied to the growing presence of coffee bars located in shopping malls, main business streets, supermarkets, and hospitals. A large percentage of the Honduran population is young and these Hondurans are consuming more and different types of coffee, e.g., "frozen" coffee drinks. Particularly, the coffee bars providing customers with free wireless internet service are attracting lots of high school and university students as loyal (coffee-loving) customers.

Trade:

Coffee exports for 2012/2013 are forecast at 4.4 million 60-kg bags. Exports for 2011/2012 are estimated at 4.1 million bags. IHCAFE's forecast is that the increase in volume exported will compensate for the expected decrease in export price. Coffee exports were 3.9 million bags in 2010/2011. This volume exported was 22 percent higher than the 2009/2010 harvest.

IHCAFE estimates that even though the coffee prices are going down, there is still an incentive to the producer since a price over US\$150 per quintal (hundred pounds) is favorable. This price level will continue to support an increase in exports. It should be noted that this data does not include coffee exports that are not registered through official channels. Post estimates 'informal' exports are about 260,000 bags that are exported to Guatemala and Nicaragua. The coffee sent to Guatemala is quality coffee, while the coffee sent to Nicaragua is coffee of lower quality but obtains attractive prices nonetheless.

Exports to Germany, Belgium, the United States, Italy, France, South Korea, Japan, Holland, Sweden, and Canada represented 88 percent of total shipments. The greatest volume (30 percent) was exported to Germany, and the United States was the number three destination accounting for 16 percent of total exports. Honduras exported coffee to 39 countries.

Export Trade Matrix

Country Commodity	Honduras Coffee, Green		
Time Period	MY	Units:	60 Kg Bags
Exports for:	2011		2012
U.S.	611,397	U.S.	654,534
Others		Others	
Germany	1,159,727		1,242,000

Belgium	654,222		700,488
Italy	217,693		233,082
France	207,851		222,732
S, Korea	182,032		194,994
Japan	133,420		142,830
Holland	91,002		97,290
Sweden	86,269		92,322
Total for Others	2,732,216		2,925,738
Others not Listed	522,387		559,728
Grand Total	3,866,000		4,140,000

Export value for 2010/2011 reached US\$1,239 million. This was 105 percent higher than the earnings from the 2009/2010 harvest. This has been the highest income recorded in Honduran coffee exports. According to the Honduran Central Bank's data coffee export earnings for 2010 represented 40 percent of the total export revenues of agricultural products. The average export price in the 2010/2011 harvest was US\$248 per 46 kg bag compared to the average price of US\$149 in 2009/2010.

According to data from the Honduran Central Bank, imports of roasted and soluble coffee for domestic consumption came mainly from the United States. Other coffee exporters to Honduras are Mexico, Guatemala and Nicaragua. Post expects that competition to U.S. supplied roasted and soluble coffee will increase as Mexican and Central American companies sell their soluble coffee in machines located at commercial centers and office buildings.

For the ninth year running, IHCAFE is organizing the "Cup of Excellence" competition. This promotional event brings together the best Honduran coffees which are sold worldwide via electronic auction. Through this competition, Honduras finds niche markets for its coffee. In 2010/2011 more than 586,000 60 kg bags were produced under programs such as UTZ Kapeh Certified, Organic/Fair Trade, Rain Forest Alliance, Fairtrade, Cafe Practices from Starbucks and others.

The Specialty Coffee Association of America (SCAA) Board of Directors named Honduras as the "Portrait Country" for the annual SCAA exposition held in Oregon on April 19, 2012. For Honduras, the initiative represented a united strategy supported by the government and inclusive of the private sector and leading institutions to strengthen its coffee sector and trading ties with the United States.

Honduras, which has a growing reputation as a specialty coffee power player, earned a spot in the SCAA Opening Ceremonies, where the country's President Lobo gave a speech. The "Portrait Country" status is sure to bring extra eyes to Honduras, as well as the recent quality improvement work done by the nation's coffee institute, IHCAFE. As demand for high quality Arabic coffees continues to rise, the commitment of Honduras represents an opportunity to build the supply chain for U.S. coffee roasters.

The flow of contraband coffee going to Guatemala and Nicaragua is estimated at 260,000 60 kg bags. This unregistered flow is stimulated by the need of some growers to receive cash rapidly for their

unprocessed product. Intermediaries help in the commercialization by taking the harvest out to the road. Some intermediaries live in the same area of production and provide funds to the producers for personal expenses or for basic needs such as food.

Another reason for this unregistered trade is the existence of an alternate market. Honduran coffee sellers obtain a higher price if they do not sell it in the formal market: If producers sell their coffee through the formal market, according to law, they face a deduction of US\$9.00 per quintal (100 pounds). However, the volume sold within the alternate market notably declined by roughly 60 percent during the 2010/2011 harvest. The decrease was due, in part, to importers being more aware of the quality coffee that it is being produced in Honduras which has increased demand within the formal market.

Stocks:

Stocks decreased during 2010/2011 from the estimated amount in light of the increase in exports. Coffee beans stored by the roasters are only toasted upon request. Roasters keep the remaining beans for domestic consumption. The coffee might also be sold to other Central American countries throughout the year.

Policy:

The Government of Honduras (GOH) privatized IHCAFE in 2000. The privatization was done in order to rationalize the coffee sector. At that same time, the National Council of Coffee was created. IHCAFE is the specialized institution in Honduras that works with all aspects of coffee production, harvesting, and exporting. IHCAFE provides guidelines, extension services and implements projects to increase production and to improve the quality of Honduran coffee. It also establishes commercialization procedures and controls coffee production and exports. As part of those controls, exporters must register with IHCAFE the coffee which they buy from growers and the coffee which they export. Subsequently, IHCAFE issues exporters the export permits. The Board of Directors of IHCAFE includes coffee growers, coffee roasters, exporters, and representatives from the Ministry of Agriculture and the Ministry of Industry & Trade.

Due to the low international prices, during the years of the coffee crisis, the GOH obtained a loan for US\$20 million to be paid over 20 years. Through the loan, funds supported all coffee producers in 2002. Due to the high level of indebtedness of many growers, the GOH created the Law of Financial Reactivation of the Coffee Sector in 2003. This law facilitated the creation of the coffee trust fund in 2004, which receives the financial contribution of coffee growers.

The grower's contribution is obtained through the deductions that the exporter or intermediary makes when they buy the grower's coffee. One of the deductions is for US\$9.00 per quintal (100 pounds). This deduction is transferred to IHCAFE, which in turn transfers it to the trustee banks. This deduction is returned to the producer in 60 days. The interest from the US\$9.00 contribution is assigned to pay off the US\$20 million loan over the next 15 years.

The other mechanism to obtain funds is through an exporter deduction of US\$3.25 per purchased quintal. Out of the US\$3.25, approximately US\$0.50 is applied to the repayment of the US\$20 million loan, and the balance is distributed with 36 percent going to the operation of IHCAFE and 64 percent to the Coffee Fund. The Coffee Fund uses those resources to build and fix roads in coffee production areas, and to buy equipment for coffee producers.

To exemplify some of the benefits of the trust fund, IHCAFE used part of the trust fund to increase productivity and to lessen the impact of fertilizer prices on coffee producers. IHCAFE bought fertilizer used by producers and sold it to them at a lower-than-market price. The fertilizer was sold to coffee producers for cash or on credit with payment due in a year. This program supports an increase in production and also helps hold down the overall commercial price of fertilizer. The trust fund also provides financial assistance to purchase equipment and seeds, as well as offers technical assistance through education programs on crop diversification and irrigation methods.

In addition to its fertilization program, IHCAFE has implemented the following projects: Innovative Coffee Producer, Coffee Regionalization, Coffee Rehabilitation, and Productive Diversification. The programs being implemented are the Assistance to Small Coffee Producer, Land Title, Solar Dryers, Agro Forestry and Community Forestry. IHCAFE has also created the Superior School of Coffee, Centers of Research and Training, the National Center of Quality, the Coffee Quality Control Laboratory and the School of Tasters.

Through these projects and programs, IHCAFE is introducing new ways to add value, to develop specialty coffee, and to find niche markets. Coffee producers are provided technical assistance to diversify their farm production by growing precious woods, and including food products such as avocado, fruits, fish, poultry or bees.

Production, Supply and Demand Data Statistics:

Coffee, Green Honduras	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Oct 2010		Market Year Begin: Oct 2011		Market Year Begin: Oct 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	266	0	285		308
Area Harvested	0	238	0	255		275
Bearing Trees	0	1,049	0	1,049		1,049
Non-Bearing Trees	0	141	0	141		141
Total Tree Population	0	1,190	0	1,190		1,190
Beginning Stocks	218	218	41	30		34
Arabica Production	3,900	3,975	4,100	4,600		4,983
Robusta Production	0	0	0	0		0
Other Production	0	0	0	0		0
Total Production	3,900	3,975	4,100	4,600		4,983
Bean Imports	0	0	0	0		0
Roast & Ground Imports	8	9	0	9		9
Soluble Imports	15	8	15	8		8
Total Imports	23	17	15	17		17
Total Supply	4,141	4,210	4,156	4,647		5,034
Bean Exports	3,900	3,866	3,925	4,140		4,447
Rst-Grnd Exp.	0	35	0	40		40
Soluble Exports	0	0	0	0		0

